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Future of the eMerge² Program

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Thank you Chairman Platts, Chairman Rogers and members of the Subcommittees, for allowing us this opportunity to testify before you regarding the Department of Homeland Security's (DHS) Information Technology investments, its plans for its financial management systems, and the future of the *eMerge*² Program.

Information Technology (IT) Governance and Investment Control

The IT Strategic Plan and Enterprise Architecture (EA) for DHS are developed from the DHS Strategic Plan, the DHS Future Years Homeland Security Program (FYHSP) and the Secretary's Planning Priorities. These assist in framing our governance processes.

The Department's current IT budget is controlled and invested by the Capital Planning and Investment Control (CPIC) process. The Department's Enterprise Architecture (EA) process coupled with our CPIC process ensures the Department optimally invests and manages its annual budget.

DHS reviews critical systems investments in two ways: (1) we look at proposed investments from a portfolio perspective where investments are assessed cross-programmatically for gaps, redundancies and interoperability; (2) we conduct in-depth reviews of investments periodically and at milestone decision points to assess risk and management of the program's cost, schedule and performance. These reviews are conducted by senior DHS leadership through the Joint Requirements Council (JRC) and the final decisions rest with the Investment Review Board (IRB). The JRC is comprised of the Department's Chief Information Officer, Chief Financial Officer, Chief Procurement Officer, Chief Human Capital Officer, Chief Administrative Services Officer and the Chief Operating Officers of the Components. The IRB is chaired by the Deputy Secretary and is comprised of the Under Secretary for Management, the CFO, CIO, Assistant Secretary for Policy, and other DHS Component heads as appropriate. Additionally, the Integrated Project Review Team (IPRT) conducts integrated reviews in support of the IRB, JRC, Enterprise Architecture Board, and Asset and Services Management Board. The IPRT is comprised of subject matter experts and representatives from various organizations within DHS. The IPRT develops an integrated review plan for investments that reflects the cost, complexity, and risk of the investment. The Department's investment review process is governed by a Department Management Directive that is designed to reduce risk and provide appropriate investment oversight. This directive is part of an ongoing Department focus on continuously improving mission effectiveness.

Portfolio investments must meet specific criteria for continuous funding. They must align to the DHS mission, have clear performance metrics, meet program and project control criteria as measured by Earned Value Management and Operational Analysis, and demonstrate delivery of discrete technical capability at key milestones throughout the lifecycle of the investment. In addition, investment performance is assessed against the entire portfolio to ensure that budget dollars are allocated to initiatives that are delivering the most value to the mission.

The Technical Reference Model (TRM) of the DHS Enterprise Architecture is used to establish standards throughout DHS. These standards are enforced through the EA governance process. The eventual goal is to align requirements and reduce the number of products being used for particular functions to the standard products laid out in the TRM. This enhances information sharing since the TRM standards facilitate information sharing.

The Department ensures proper IT governance of its programs through the CPIC process and the Enterprise Architecture Board (EAB) for the EA. A strong part of this governance is the CIO Council, which consists of the CIOs from DHS HQ and its components. This Council, which is chaired by the Department's CIO, provides a collaborative forum for DHS-wide IT decision-making, allows for the socialization of those decisions and acts as the EAB.

The benefits of the CIO Council finalizing and disseminating the EA and CPIC processes are:

- it aligns investment decisions to FYSHIP goals and objectives
- it balances DHS resources across Transformational Portfolios and objectives
- it identifies redundancies and integration opportunities across DHS, and
- it maintains enterprise-level OMB, PMA, and Congressional Compliance

As the Department moves forward with the *eMerge*² program to achieve standardization of the DHS accounting structure and financial management business rules, processes, and procedures, the same principles of proper program management requirements alignment, IT governance and risk-mitigation will be applied.

*eMerge*²

Specifically regarding the *eMerge*² program, while the project has taken a new direction in recent months, our need and our vision remain the same: To equip DHS managers and senior leadership with the critical resource management information necessary to improve decision-making and to improve service delivery and efficiency.

The initial *eMerge*² strategy to develop a new financial system was based in part on an assessment, conducted in 2003, which concluded that the mission support systems being inherited by the new Department of Homeland Security had limitations. Specifically, each of the systems examined failed to meet all mandatory requirements promulgated by the Joint Financial Management Improvement Program (JFMIP), the government's financial standards setting board. Based on this study's findings, and the fact that there were a number of new or transferred organizations that had no resource management systems, the decision was made to develop a new, integrated suite of resource management systems that would serve as a platform for the entire Department.

At the same time, a few other efforts already underway prior to the creation of DHS were allowed to continue. CBP was well on its way to implementing an integrated suite of resource management systems with SAP and SAP was an integral part of the massive CBP Automated Commercial Environment (ACE) initiative. Similarly, both Coast Guard and Secret Service were in the midst of implementing upgrades to their resource management systems. Instead of

requiring CBP, Coast Guard and Secret Service to migrate to the new *eMerge*² solution, it was decided to design an interface so that data from these agencies' systems could be fed into the *eMerge*² solution to enable department-wide data compilations and evaluations and the development of consolidated financial statements.

In late Fiscal Year 2003/early Fiscal Year 2004, DHS issued contracts with BearingPoint and SAIC to develop the Department's functional and technical requirements and to build the resource management portions of the homeland security enterprise architecture. These requirements were approved by all DHS components. Based on these requirements, DHS developed an RFP for the acquisition and implementation of an integrated resource management solution for the Department.

In September 2004, after a competitive acquisition process, BearingPoint was awarded a Blanket Purchase Agreement (BPA) with a ceiling of \$228.7 million to acquire and implement the *eMerge*² solution. So as to minimize the risk of such a large project, the Department structured the project so that we would incrementally issue firm-fixed price task orders for small, measurable portions of work. The first task order (Task Order #1) was issued for \$20 million for solution development and conference room pilot testing. Soon into work on this task order, concerns began to arise regarding the extent to which there was a clear understanding between DHS and BearingPoint on what was to be delivered. Deadlines were missed and products presented to the project team were not accepted. As a result, in February 2005, the DHS CFO initiated a review of the *eMerge*² effort.

Work under Task Order #1 was closed out in April 2005, prior to completion. Based on the work that was satisfactorily completed, the price was adjusted from \$20 million to \$6 million. As we halted work on Task Order #1, DHS issued a small, finite task order (Task Order #2) to BearingPoint in the amount of \$2.9 million. The primary activity under Task Order #2 was to help DHS examine certain component systems in greater detail. We again surveyed the existing financial systems in the Department against the capabilities to meet core functional requirements, which were derived from the requirements developed during the first phase of the *eMerge*² project. In particular, the system at the United States Coast Guard, which used a similar suite of products as proposed under the *eMerge*² project and which was already a service provider to the Transportation Security Administration, was examined in detail.

The conclusions reached last fall by the OCFO were:

1. The effort that we embarked upon under the BPA with BearingPoint should end because it had not been successful and future action down this path was high-risk;
2. DHS' own organizational maturity issues also made the project high-risk; and
3. Other viable options to leverage existing investments existed and have been successful.

In short, the DHS CFO concluded that several existing components in DHS had upgraded their systems and improved operations to the extent that viable alternatives to restarting with a new system integrator were possible. Our assessment also concluded that the Office of Management and Budget's Financial Management Line of Business and its Centers of Excellence offered

viable alternatives to meet DHS' requirements as well. In December 2005, DHS chose not to exercise the next option year on the BearingPoint BPA, and so the BPA expired. The total expenditure on the *eMerge*² contract with BearingPoint under the implementation BPA was \$8.9 million.

***eMerge*² New Direction**

DHS still has a need to improve its resource management systems. We have some systems that are aging; some that fail to fully meet user requirements; and some that are not fully integrated between finance, procurement, and asset management. To meet these needs, rather than acquiring, configuring, and implementing a new system within DHS, we recognize the opportunity to leverage investments that have already been made, both inside DHS and outside. We have identified a broader list of potential financial management service providers – including those within DHS and some of the OMB-named Financial Management Centers of Excellence for assessment.

We have now moved on to a process in which we are assessing our requirements against the services and solutions offered by the various potential service providers. Leveraging materials created during the earlier phase of the *eMerge*² project, we sent potential service providers an informal Request for Proposal (RFP). The customers also provided answers to a Request for Information (RFI) on organizational size and workload. In addition, customers evaluated what services they required. The Service Centers have responded to the requirements and constraints with a technical proposal and also provided an operational cost proposal for each customer based on the data received in the RFI. Each of the four Service Providers provided a two-day demonstration of their solution for the customers. The customers then rated each Service Center as acceptable or not acceptable. The Service Centers have also been asked to provide a rough estimate for the migration cost and the duration estimated to accomplish the migration. The conclusion of this phase is to put together both near term and long term migration plans, including approximated “go-live” dates. This planning is expected to be largely completed in May 2006, and then sent through the various investment review authorities in June 2006.

The systems development aspect of our new approach will focus largely on the expansion of capabilities and tools to support a global view of DHS finances. DHS has a limited set of centralized reporting tools, used largely to produce the consolidated financial statements and report information to Treasury. But the production of more detailed program reports useful for oversight and monitoring purposes is still too manual and time consuming, and the data is limited. Thus, an important effort for the current Fiscal Year is to begin to increase our collection and use of management information.

With the revised *eMerge*² effort, we will also be squarely examining how financial services are provided in DHS. The effort is about more than just getting people onto new systems. It is about the transformation of financial management service delivery in DHS. Over time, to realize increased efficiency, new business models for how we manage financial services will have to be examined and implemented.

eMerge² Funding

In the current Fiscal Year we have \$48.4 million available for the *eMerge²* project and we have requested an additional \$18 million for the program in the President's Fiscal Year 2007 Budget. These funds will be used to implement the revised *eMerge²* approach. Specifically, funds will be expended on consolidations & improvement, data cleansing and migration, change management and training, enterprise resource management data visibility, and completing e-Travel implementations.

The eMerge² Project and Financial Management

The *eMerge²* project is an important element of improving financial management in DHS; however, it should not be viewed separate from the larger context of financial management, which includes not only systems, but also people and processes. Our efforts to fix audit weaknesses, improve financial management, strengthen internal controls, and modernize financial systems are all interrelated activities.

As you know, DHS received a disclaimer on our Fiscal Year 2005 financial statements. While financial systems are certainly a part of being able to produce reliable financial statements, the weaknesses identified by the auditors have more to do with our people and processes, than with our systems. The DHS Inspector General continued to report ten material weaknesses in DHS' Fiscal Year 2005 financial statement audit report. These findings represent a myriad of complex legacy issues only compounded by the challenge of bringing together separate and disparate automated systems and systems of internal control including the policies, procedures, personnel, and cultures that must evolve into a single way of doing business, a DHS way of doing business.

The financial statements themselves provide an annual portrayal of every financial aspect of DHS mission activities. Yet, the presentation of that information as a uniform whole continues to present challenges at the component and consolidated level. Disclaimers of opinion reflect the inability of the auditors to conduct a sufficient audit necessary to obtain assurance that the financial statements are fairly presented. The reported conditions that are considered material weaknesses contribute to the necessity of the auditors to issue a disclaimer of opinion. These reported conditions that are considered material weaknesses are as follows:

- Financial Management Oversight
- Financial Reporting
- Financial Systems Security
- Fund Balance with Treasury
- Property, Plant, and Equipment
- Operating Materials and Supplies
- Undelivered Orders, Accounts and Grants Payable, and Disbursements
- Actuarial Liabilities
- Budgetary Accounting
- Intragovernmental and Intradepartmental Balances

Corrective Action Plans

A necessary first step in obtaining an opinion on the DHS-wide consolidated financial statements, is to first obtain an opinion on the DHS-wide Consolidated Balance Sheet, which is only one of the six principal financial statements. Material weaknesses that need to be fixed in order to obtain an opinion on DHS' Fiscal Year 2006 Balance Sheet include: Fund Balance with Treasury, Operating Materials and Supplies, Property Plant and Equipment, and Actuarial Liabilities.

Targeting material weaknesses that directly relate to the disclaimer on the DHS Consolidated Balance Sheet will provide the assurance over the processing of activity and transactions that are reflected on this financial statement. DHS OCFO is working closely with the DHS Office of the Inspector General (DHS OIG), DHS OIG's contracted auditors, and key Headquarters and component financial managers to continue to refine and leverage corrective action planning efforts in the most efficient manner to achieve this goal for Fiscal Year 2006.

Tangible progress in remediating the four material weaknesses mentioned above will have the synergistic effect of beginning to reduce the severity of the remaining six material weaknesses related to undelivered orders, accounts and grants payable, inter and intra governmental transactions, budgetary accounting and financial management oversight, and financial reporting.

Central to the planned elimination of all DHS reported material weakness is a credible and enforceable corrective action planning process that has the full backing and funding commitment of upper management, the DHS OIG audit community, and DHS front line financial managers and staff. This year, DHS is entirely revamping its corrective action process. It will be more standardized and disciplined. Among our changes for this year are:

- Identifying the root causes and issues underlying our pervasive weaknesses by comprehensively assessing the current designs of our internal controls, and prioritizing plans to address internal control gaps to support the elimination of pervasive material weaknesses.
- Formalizing the corrective action planning process through a Management Directive, guidance, training, and utilizing authority from the Office of the Secretary to overcome cultural shifts and secure management commitment.
- Implementing an automated corrective action tracking system to ensure progress is tracked and management is held accountable for progress.
- Developing the *Secretary's Strategic Plan for Improving Internal Controls over Financial Reporting*, in close coordination with OMB and OIG.

OIG and auditor input and reporting on internal controls over financial reporting is a critical component of helping us understand our problems, and monitoring the effectiveness of an organization's accountability. The DHS OCFO, OIG and financial statement auditors have had an excellent relationship, and continued open interactions among these parties is critical for success. The DHS OCFO is also partnering with the OIG to help monitor the Department's performance in correcting material weaknesses by establishing periodic reporting by the OIG that assesses and compliments management's corrective action efforts.

Responsibility for resolving material weaknesses, however, falls largely on the same financial and program management professionals throughout DHS that are also needed to successfully implement the *eMerge²* project. Accordingly, management faces tradeoffs of time, effort, and money between improving the issues that give rise to our material weaknesses, and preparing to migrate financial systems. For example, Immigration and Customs Enforcement (ICE) provides financial services to many of the organizations that have been identified as being in need of improved financial services and systems. At the same time, financial management improvements at ICE are critical to DHS' efforts to pass an audit this year. Likewise, the USCG is a potential service provider for more DHS customers, but also needs to make improvements that address known material weaknesses. At present, overcoming the material weaknesses cited in our financial statements audit is paramount to consolidating financial systems and is a key consideration as we develop our near- and long-term *eMerge²* migration plans.

Internal Controls

DHS' plans for financial management and resource management systems transformation will pivot on a sound foundation of internal control. Through our comprehensive efforts to assess and improve our internal controls, management will work itself into a position where it can provide its assurance that a sound, reliable controls environment exists within DHS.

Our work on internal controls is intricately linked to our work on redressing our material weaknesses and our work on financial systems. It will be through our work on internal controls that we are able to identify and fix many of the underlying problems that lead to material weaknesses. Similarly, our work on the consolidation and migration of financial systems and service providers will help us ensure that we have sufficient controls in place.

The DHS CFO has created a plan to institute a comprehensive network of internal controls throughout DHS. Central to the plan was the creation of an Internal Control Committee (ICC) comprised of key managers from across DHS Headquarters and Components to evaluate best practices from across industry and government and design a system of controls that will support sustainable, clean audit opinions on DHS component and consolidated financial statements.

To assist the Department's Internal Control Committee in implementing OMB A-123, this past January, we awarded a blanket purchase agreement to PricewaterhouseCoopers LLP (PwC) for up to \$7.6 million in Fiscal Year 2006, with a potential 5-year value of up to \$42.4 million through January 2011. The Department's Independent Government Cost Estimate was developed and based on historical audit hour estimates from the Department's Financial Statement audit. Our contract with PwC is similar to other CFO Act agency efforts in implementing OMB A-123. Specific PwC tasks will include:

- Providing training to develop skill sets for internal controls,
- Developing internal control process analysis documentation,
- Performing internal control test work,
- Developing remediation strategies for material weaknesses in internal control, and
- Providing project management support for the Department's ICC.

In total, PwC will have approximately 20 to 25 staff and 5 subcontractors assigned to the Department's ICC. Skill sets of these staff include individuals with prior experience in performing internal control assessments, internal control attestations, business process documentation and improvement, and financial management reporting for the Department of Homeland Security and other large, complex Federal agencies.

Conclusion

Although we still have a lot of challenges before us, DHS has made real progress in the systems and financial management areas and has put in place systems and processes to guide and optimize our IT investments in support of the DHS mission. While the *eMerge²* project did not progress along the path we had originally envisioned, we managed the project in such a way that enabled us to minimize our risk, identify problems early on, and make course corrections before substantial sums of taxpayer dollars were expended. When progress does not move in the direction or speed at which it should, we have – and will continue to – make changes to ensure we get what is needed to best support DHS operations.

Thank you for your leadership and your continued support of the Department of Homeland Security and its management programs. We would be happy to answer any questions you may have.